

# Personal Financial Management - Lesson 12

## Ethical Financial Behavior/Legal Issues

### ENABLING OBJECTIVES:

Upon completion of this lesson, students will be able to:

- 12.1 Explain their responsibility for good money management
  - 12.1.1 Explain your civil responsibility for good money management
  - 12.1.2 Explain your military responsibility for good money management
  - 12.1.3 Explain your moral responsibility for good money management.
  - 12.1.4 Define how Navy Core Values support good money management
- 12.2 Identify six major areas of concern where Navy lawyers and financial counselors typically see financial issues
- 12.3 Explain contractual obligations
  - 12.3.1 Explain legal liability incurred with debt
  - 12.3.2 Explain the importance of never signing a contract under pressure
  - 12.3.3 Explain where to go to get a contract reviewed prior to signing
  - 12.3.4 Explain why they should get a contract reviewed prior to signing
- 12.4 Identify sources for assistance with ethical or legal advice
- 12.5 Explain their legal responsibility for proper use of the government purchase card

### REFERENCES:

- 1. OPNAVINST 1740.5A (Draft)
- 2. U.S. Navy's Personal Financial Management Standardized Curriculum (PERS 662)
- 3. OPNAVINST 1740.1 Fleet and Family Support Center

- 4. Command Financial Specialist Training Manual NAVPERS 15608C

### SLIDES:

- 12-1 Lesson 12 Title Slide
- 12-2 Navy Core Values
- 12-3 Commitment
- 12-4 Honor
- 12-5 Courage
- 12-6 Common Problem Areas
- 12-7 Domestic Relations
- 12-8 Separation Agreements
- 12-9 Divorce
- 12-10 Separation or Divorce
- 12-11 Spousal and Child Support
- 12-12 Child Support
- 12-13 Credit Contracts
- 12-14 Contract Clauses
- 12-15 Before Signing A Contract
- 12-16 Landlord/Tenant Transactions
- 12-17 Warranties
- 12-18 Credit and Collection Laws
- 12-19 Soldiers and Sailors Relief Act
- 12-20 Sources of Assistance
- 12-21 Summary Questions
- 12-22 Summary
- 12-23 Effects of Compound Interest

## **Personal Financial Management - Lesson 12**

### **Ethical Financial Behavior/Legal Issues**

#### CASE STUDIES:

None

\$ Ethical, Moral, and Legal Responsibilities

\$ Relationship to Navy Core Values

\$ Common Problems

\$ Sources of Assistance

#### VIDEO TAPES:

None

#### NOTES TO THE FACILITATOR:

The main points of this topic are:

**I. INTRODUCTION**

Yesterday morning we introduced ourselves and asked the question, "Why are we here?" We went on to answer that question in terms of financial problems experienced by Navy personnel and their effects on the Navy. However, there is another reason for this class that you should be aware of.

**II. NAVY CORE VALUES**

The Navy Core Values that I'm sure you heard about in boot camp are shown on this slide. Focus just for a moment on Commitment.

- A. Navy literature says that this value includes caring for the well-being of people, being committed to positive change and constant improvement, and working together to improve the quality of work AND individuals. This course is part of the Navy's commitment to you, and I hope each of you recognize it as such.

**SHOW SLIDE 12-1 ETHICAL FINANCIAL BEHAVIOR/LEGAL ISSUES**

**SHOW SLIDE 12-2 NAVY CORE VALUES**

**SHOW SLIDE 12-3 COMMITMENT**

B. We are about to discuss some of the most common areas where Navy lawyers and financial counselors see Sailors and their families having financial difficulties. But, before we do, let's look at the other two core values, Honor and Courage, and see how they relate to personal financial management. The slide shows a few things Navy literature has to say about the core value of Honor. Applied to the subject that brings us together, it basically boils down to being honest, completely honest, every day, with everyone. Failing to meet your financial commitments is not honest. It's just that simple! You will also find that keeping your financial house in order is much easier if you are always honest with yourself. This means facing the reality of what constitutes a reasonable lifestyle in concert with your financial resources.

**SHOW SLIDE 12-4 HONOR**

- C. Most of you may think of Courage as it applies to being a warrior; but in fact, it often takes courage to meet your financial responsibilities. Resisting personal desires and peer pressure to spend beyond your means, particularly at this stage of your lives, often requires great inner strength. Rising to the occasion as a member of a damage control party will be aided by adrenaline, the desire to help your shipmates, and the knowledge of immediate repercussions if you fail to act. Conversely, you may have to reach deep within yourself to find the courage to resist impulse spending or to pay your debts when you would much rather use the money for a good time or a new toy.

### **III. COMMON PROBLEM AREAS**

We will now look at each of these six areas where Navy lawyers and financial counselors see many problems. During these discussions, remember that I am not a lawyer. However, you do have legal advice readily available to you, and I strongly encourage you to seek that advice any time you are not sure of your legal rights or responsibilities. Once you sign a contract, you are legally and morally bound by the terms of that contract. If you don't fully understand every line, including the "fine print," it is one case where what you don't know CAN hurt you.

### **SHOW SLIDE 12-5 COURAGE**

#### **Note to Facilitator**

Ask the following question:

What do you think are the most common areas where Sailors have financial problems?

### **SHOW SLIDE 12-6 COMMON PROBLEM AREAS**

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**DISCUSSION POINT**

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**RELATED INSTRUCTOR ACTIVITY**

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A. Domestic Relations. Our discussions of domestic relations will address rights and responsibilities regarding marriage, separation, divorce, and children. No, these don't always go together, but they often do, so you should have some knowledge of what each entails.

1. Unfortunately, many marriages today end in divorce. Divorce is often preceded by actual and/or legal separation of the parties. Legal separation agreements usually provide for division of marital property and debts, as well as spousal and/or child support. Be aware that such agreements may be incorporated in, or become the basis of, a final divorce settlement, and they are enforceable in court should either party breach the terms of the agreement. Separation agreements are normally quite complex and should ALWAYS be reviewed by a lawyer prior to signing.

**SHOW SLIDE 12-7 DOMESTIC RELATIONS**

**SHOW SLIDE 12-8 SEPARATION AGREEMENTS**

2. Normally, the state of domicile of the party filing for divorce will have jurisdiction over the proceedings. Most states have a residency requirement that must also be met. In most states, divorces may either be for "fault," - adultery, desertion, abuse, etc.- or "no-fault." No-fault divorces are by far the quickest and least expensive, IF the parties can agree on major elements such as division of property, responsibility for debts, and support. "Marital property" generally means items acquired by the parties during the marriage. Note that your retired pay is usually considered marital property. The Uniformed Services Former Spouse Protection Act governs division of retired pay during a divorce. Be aware that both parties are liable for any charges to a joint account prior to issuance of a court decree. Even if a court assigns responsibility for debt to one spouse, the other is still liable if the one assigned the debt does not pay.
3. If you find yourself in a separation or divorce situation, organize all your personal documents and close all joint credit accounts. Create a new financial plan according to your changed circumstances. BE SURE to have any agreements reviewed by an attorney. Before and after a divorce, check your credit report to avoid surprises. After a divorce, re-title property and change legal papers.

**SHOW SLIDE 12-9 DIVORCE**

**SHOW SLIDE 12-10 SEPARATION OR DIVORCE**

4. All states have laws governing spousal and child support, and, as shown by the quote at the top of the slide, the Navy recognizes an individual's responsibilities to his or her dependents. The Navy provides counseling services to family members, and requires commands to council service members when a nonsupport complaint is received. The Navy does not have the direct authority to force a service member to provide support. However, the DoD Pay Manual states that when members receive BAH at the "with dependents" rate, that money IS to be used for the support of dependents. Failure to do so could result in recoupment of the difference between the "with dependents" and "without dependents" rates and disciplinary action up to court martial. Failure to meet court-ordered support payments usually results in a judgement against the member, which is enforced by garnishment or involuntary allotment. Be aware that an involuntary allotment for child support will take priority over all other debts, except those owed to the Government.

**SHOW SLIDE 12-11 SPOUSAL AND CHILD SUPPORT**



5. A few additional words about child support. If you are responsible for child support, pay it! "The system" will most likely get it from you sooner or later, so do the stand-up thing and avoid the hassle. Keep records of what you pay when. If paternity is in doubt, get a paternity test, and refrain from doing anything that could be construed as support until the results of the test are in. If you are due child support and are not receiving it, visit the local child support enforcement office and seek help from the Navy Legal Service Office and/or Fleet and Family Support Center.

B. Credit Contracts. Credit contracts are another place a lot of people get in trouble. Credit contracts will contain all the items shown on the chart.

**SHOW SLIDE 12-12 CHILD SUPPORT**

**SHOW SLIDE 12-13 CREDIT CONTRACTS**

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**DISCUSSION POINT****RELATED INSTRUCTOR ACTIVITY**

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1. They are also likely to have several clauses.  
The security clause identifies the property that the creditor may claim if you do not pay as agreed. Often this is the item purchased.
2. The attorney's fee clause will state that you must pay the creditor's attorney's fees if he or she must sue you because of nonpayment. Talk about money down the drain!
3. A repossession clause may be included in any credit contract for a major purchase and is common with vehicle loans. It will state that you are responsible for any balance if an item is repossessed and sold for less than the balance of the loan, and that you are also responsible for any costs associated with such repossession.
4. The late fee clause will state when and how the creditor will charge late fees if payments are not made on time.
5. An acceleration clause will give the lender the right to demand payment of the entire outstanding balance of the loan if the borrower defaults. Note that a default can be as little as one missed payment!

**SHOW SLIDE 12-14 CONTRACT CLAUSES**

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**DISCUSSION POINT****RELATED INSTRUCTOR ACTIVITY**

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6. Before you sign a contract, **BE SURE** you understand **EVERYTHING** it says. It's always a good idea to think things over for at least a day before signing, and you should **ALWAYS** have a contract reviewed by Navy Legal Services **BEFORE** you sign it.

C. Landlord/Tenant Transactions also result in a lot of business for Navy legal and financial services folks.

1. One way to ensure things go your way is to get a copy of the recommended lease that favors your interests as a military tenant from the housing office. You need to visit the housing office before signing a lease anyway to ensure you do not lose your BAH.
2. Any lease should specify the period covered and termination procedures.
3. There is no Federal law requiring a "military clause"; however, several states require one. You should always insist on one since it will allow you to terminate your lease if you are transferred, ordered to move into base housing, or discharged.

**SHOW SLIDE 12-15 BEFORE SIGNING A CONTRACT**

**SHOW SLIDE 12-16 LANDLORD/TENANT TRANSACTIONS**

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**DISCUSSION POINT****RELATED INSTRUCTOR ACTIVITY**

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4. As we mentioned in the hour on insurance, you should have renter's insurance. The landlord is only liable for damage caused by his negligence.

5. State laws on the landlord's ability to keep a security deposit vary widely. Normally, it may not be retained for fair wear and tear. Inspect the premises thoroughly before moving in and note any discrepancies **IN WRITING**. You might also consider photos or video tape.

D. Warranties. A warranty can save you a lot of repair money, particularly on major purchases such as automobiles and appliances. However, you must know what is covered and take prompt action.

1. The Magnuson-Moss Act of 1975 is a Federal law that grants two types of warranties on all products and services. Any product must do what it is supposed to do; i.e. a toaster must toast. Additionally, if the seller has advised that the product is suitable for a specific purpose, it must work for that purpose, i.e. buck shot for hunting deer.

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**SHOW SLIDE 12-17 WARRANTIES**

2. You will encounter three types of expressed warranties. Be careful of the "as is," because it is not really a warranty at all. If a product has a limited warranty, be sure what it is limited to. Be aware that even a full warranty will have a time limit, and possibly other limits.
3. Service contracts are often referred to as "extended warranties," but they are not warranties at all. The cost of a warranty is included in the purchase price of an item. A service contract will cost you extra. Think long and hard before buying a service contract. Some of the repairs may already be covered by the original warranty, or the duration of the service contract may be so limited that failures are unlikely during the time covered. Be particularly leery of service contracts that are offered by companies other than the original manufacturer of the item.

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E. Credit and Collection Laws. There are several Federal laws designed to help you with debt management or debt problems.

1. The first of these, the Federal Truth in Lending Law, requires uniform disclosure of credit terms so you can easily determine the interest rate being charged and the amount you will pay in finance charges. It does NOT limit the amount of interest that can be legally charged, although many states have usury laws that do apply limits. This act also limits your liability for unauthorized use of CREDIT cards -- nothing if you notify the card company within two days, \$50 thereafter. Note that these limits do NOT apply to DEBIT cards.
2. The Fair Credit Reporting Act gives you the right to view your credit report(s) and to add a 100-word statement to your report(s). We have already talked about how important it is for you to review your reports periodically.

**SHOW SLIDE 12-18 CREDIT AND COLLECTION LAWS**

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**DISCUSSION POINT****RELATED INSTRUCTOR ACTIVITY**

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3. The Fair Credit Billing Act gives you the right to dispute credit card charges you believe to be in error. You may dispute charges by an unauthorized user, due to clerical errors, or for goods or services not accepted. You must notify the company within 60 days of receiving an incorrect bill.
4. The Equal Credit Opportunity Act prevents discrimination in granting credit based on sex, marital status, race, national origin, religion, age, or receipt of public assistance.
5. The Fair Debt Collections Practices Act protects debtors from certain practices by third party debt collectors. Illegal practices include harassment, use of obscene language, calling before 8:00 a.m. or after 9:00 p.m., threats of violence, and making false statements. You may notify a collector, in writing, to have no further contact with you. If you do so, and contact continues, go to your Navy Legal Services Office for assistance.

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6. The Electronic Funds Transfer Act provides some protection from unauthorized use of a debit card, or a credit card used as a debit card. With this type of card, your liability is limited to \$50, IF you notify the company within two business days of any lost or stolen card. If you notify the company between two and 60 days after a loss or theft, your liability is limited to \$500. If you fail to notify the issuer within 60 days, your liability for unauthorized use may be unlimited. Think of what this could do to you during a deployment!

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F. Soldier's and Sailor's Civil Relief Act. Navy Legal Service Offices also receive many inquiries about protection under the Soldier's and Sailor's Relief Act, often because Sailors mistakenly believe this act offers them more protection than is actually the case. This act does allow you to request a stay of default judgements if military duties preclude your appearance in court. It also protects you from having to pay state income taxes and personal property taxes in states other than your legal residence, and it places a 6% interest cap on any pre-service debts except student loans, some provisions may apply. However, the act does NOT help you rescind a rental or purchase agreement entered into after you entered the service, does NOT exempt you from local real estate taxes, and does NOT assist you in avoiding court on a criminal charge.

#### **IV. SOURCES OF ASSISTANCE**

Throughout this course we have emphasized that you, as members of the military, have a wide range of assistance available to you absolutely free of charge. Just remember that these folks cannot seek you out. Relying on your Navy Legal Service Office, your Command Financial Specialist, NMRCs budget counselors and Fleet and Family Support Center financial counselors is a sign of intelligence, not a sign of weakness. DO IT!

**SHOW SLIDE 12-19 SOLDIERS AND SAILORS CIVIL RELIEF ACT**

**SHOW SLIDE 12-20 SOURCES OF ASSISTANCE**

## **V. SUMMARY**

During this hour, we discussed Navy Core Values and how these values are reflected in your civic, military, and moral responsibilities for sound financial management. We also talked about the most common problems seen by Navy lawyers and financial counselors, and encouraged you to avail yourselves of the significant free assistance that is available to you.

## **SHOW SLIDE 12-21 SUMMARY QUESTIONS**

### **Summary Questions**

1. What is my military obligation toward good financial management?
2. What is my moral responsibility for good financial management?
3. What is my legal responsibility for good financial management?
4. Where can I go to get a contract reviewed prior to signing it?
5. Why should I get a contract reviewed prior to signing it?
6. Where can I go for help?

## **SHOW SLIDE 12-22 SUMMARY**

**VI. COURSE SUMMARY/TEST**

We will spend our last two hours together taking and reviewing a test on the material we have covered. Before we take a break and begin that little exercise, I'll be happy to answer a few questions on any of the topics we have covered.

**SHOW SLIDE 12-23 EFFECTS OF COMPOUND INTEREST**

**SHOW SUMMARY SLIDES**